Non Performing Assets: A study of State Bank of India

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Abstract:
After the evolution of banking system, the development and growth has become very prompt as bank provides a great deal for the better and speedy capital formation in the economy. Banking system has provided a greater amount of facility for the financial adjustment of the economic activity which is an important tool for the development and growth. But there are some difficulties too, in the smooth running of the banking system. One of the biggest difficulties is the non performing assets of a bank. To grant loan is not a big challenge but the recovery that loan is one of the biggest issues. In the present paper, the detail, causes and suggestion of the NPA.

Keywords: NPA, Bank, Financial Sector

1. Introduction
India being a developing country has been progressing since independence with the great support of banking system in the country. The role of commercial bank in the progress of the country is considered as a benchmark. For the high rate of capital formation the role of commercial bank has no any other alternative. But yet India needs a great amount of development and growth for the time to come where again the banking system will become a milestone but the banking system has only one big issue that is of Non Performing Assets. In general, the non performing assets are found more comparatively in the public sector banks in comparision to private bank because of liberal rules for the debt recovery. Now a days the RBI has issued strick guidelines to reduce NPA,s in the banks and due to that the proportion of NPA,s has reduced up to the extent but not all together. In the present paper a study is conducted to check the NPA,s of State Bank Of India during 2009 to 2014 and suggestion to reduce the NPA,s has also been drawn.

2. Objectives of the Study
1. To study gross NPA of SBI for the year 2010 to 2014
2. To study the net NPA of SBI for the year 2010 to 2014
3. To analyse the types of assets and effect of NPA on it.
4. To study the causes of NPA of Banks
5. To study the trends of gross and net NPA during 2010 to 2014

3. Research Methodology
It includes research design, sampling framework, methods of data collection, framework of analysis and limitations

4. Review of Literature
Kumar (2003) in his paper titled, "The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act,2002", revealed in detail the need, process, summary, positive as well as negative aspects of the Act. Pradhan Tanmaya Kumar (2013) observed that “gross advances and NPA of old private sector banks and foreign banks are rising so RBI initiated several measures like self appraisal of different risk management system by banks for introduction of BASEL II.”

T.R. Gurumoorthy et.al (2012) discussed that "NPA of public sector banks can be reduced by reviewing loan application on the basis of 5 c's. Here 5 c's denotes capacity, collateral, condition, capital and character of borrower." SIRAJ. K. K & PROF. (DR). P. SUDARSANAN PILLAI observed that NPA is a virus affecting banking sector. It affects liquidity and profitability, in addition posing threat on quality of asset and survival of banks. The study concluded that NPA still remains a major threat and the incremental component explained through additions to NPA poses a great question mark on efficiency of credit risk management of banks in India.

5. Collection of Data

The secondary data are used in the present study. The secondary data to non-performing assets and the micro variable from 2009-10 to 2013-14 were collected from various issues of SBI Annual Reports and RBI Bulletins.

6. Limitations of the Study

1.A deep analysis is made non-performing assets only. The performing assets do not pose any problems to credit management.
2.This study is only restricted to State Bank of India only.
3.The result of the study may not be applicable to any other banks.
4.Since the part of the study is based on their perceptions, the findings may change over the years in keeping with changes in environmental factor.
5.The present study does not ascertain the views from the borrowers who are not directly concerned with management of non-performing assets.

7. Assets Classification and Provisions

Assets Classification and Provisions Banks are required to classify the loan assets (advances) into four categories viz.
I. Standard assets
II. Sub-standard assets
III. Doubtful assets; and
IV. Loss assets

I. Standard Advances/Assets: are those, which do not disclose any problem and do not carry more than normal risk attached to the business. Such assets are considered to be performing asset. A general provision of 0.25% has to be provided on global loan portfolio basis.

II. Sub-Standard Advances: With effect from 31 March 2005, a substandard asset would be one, Which has remained NPA for a period less than or equal to 12 months. Such an asset will have well defined credit weaknesses that jeopardize liquidation of the debt and are characterized by distinct possibility that bank will sustain some loss. Accordingly a general provision of 10% on outstanding has to be provided on substandard assets.

III. Doubtful assets- These are the assets which have remained NPAs for a period exceeding 12 months and which are not considered as a loss advance. Banks have to provide 100 percent of the unsecured portion of the outstanding advance after netting realized amount in respect of DICGC scheme (Deposit Insurance and Credit Guarantee Corporation) and realized/realizable amount of guarantee cover under ECGC (Export Credit Guarantee Corporation) schemes.

Period for which the Provision requirements (%) advance has remained in Doubtful category
Up to one year 20 %
One to three years 30 %
More than three years
I. Outstanding stock of NPAs - 60 percent with effect from as on March31,2004 March31,2005 -75 percent with effect from March 31, 2006. -100 percent with effect from March31,2007
II. Advances classified as 100 percent with effect from doubtful for more than March 31, 2005 three years on or after April1,2004

IV. Loss Assets – Loss assets are those where loss has been identified by the bank or internal /external auditors or RBI inspectors but the amount has not been written off, wholly or partially. Any NPAs would get classified as loss assets if they were irrecoverable or marginally collectible and cannot be classified as bankable asset. Companies have to provide 100% of these outstanding advances.
Note: provision towards standard assets should not be deducted from advances but shown separately as contingent provisions against standard assets under “Other liabilities and provisions” others in schedule V of the balance sheet.

8. Reasons for NPAS in Banks

An account does not become an NPA overnight. It gives signals sufficiently in advance that steps can be taken to prevent the slippage of the account into NPA category. An account becomes an NPA due to causes attributable to the borrower, the lender and for reasons beyond the control of both. An internal study conducted by the RBI shows that in the order of prominence, the following factors contribute to NPAs.

Internal Factors

- Diversion of funds for -Expansion/diversification/modernization.-Taking up new projects.-Helping/promoting associate concerns.
- Time/cost overrun during the project implementation.
- Inefficient management.
- Strained labour relations.
- Inappropriate technology/technical problems.
- Product obsolescence, etc.
- Poor credit Appraisals, monitoring and follow up, improper SWOT analysis on the part of banks.

External Factors

- Recession.
- Input or power shortage.
- Price escalation.
- Exchange rate fluctuation.
- Accidents and natural calamities.
- Changes in government policy such as excise, import and export duties, pollution control order etc.
- Willful defaulters have been there because they knew that legal recourse available to the lenders is time consuming and slow.
- Sickness of the industry also leads to gradual erosion of the liquidity and units start failing to honour its obligations for the loan payments. Heavy funds are locked up in these units.
- Political tool-Directed credit to SSI and Rural sectors has been there
- Manipulation by the debtors using political influence has been a cause for high industrial bad debts.

In the current perspective, the Economic Survey, 2012-13(paragraph 5.32) identifies the following as the “main” reasons for the growing NPAs:
a) Switchover to a system- based identification of NPAs by PSBs
b) Prevailing macro-economic situation in the country;
c) Increased interest rates in the recent past;
d) Lower economic growth; and
e) Aggressive lending by banks in the past, especially during good times.

9. Data Analysis

Table 1: Analysis of Gross N.P.A. (Rs.)

Particulars	2010	2011	2012	2013	2014
Gross N.P.A.	19,534.89	25,326.29	39,676.46	51,189.39	61,605.35
TOTAL	19,534.89	25,326.29	39,676.46	51,189.39	61,605.35

(Source http://www.moneycontrol.com/stocks/company_info/print_main.php)

Above table shows that Gross N.P.A. from the year 2010 to 2014. It is clear from the table that the amount of gross NPA,s have been rising since 2010 to 2014. It was 19,534.89 crores and it was 61,605.35 crores in the year 2014.

Figure No1. Classification of Data of Gross N.P.A. (Rs.)

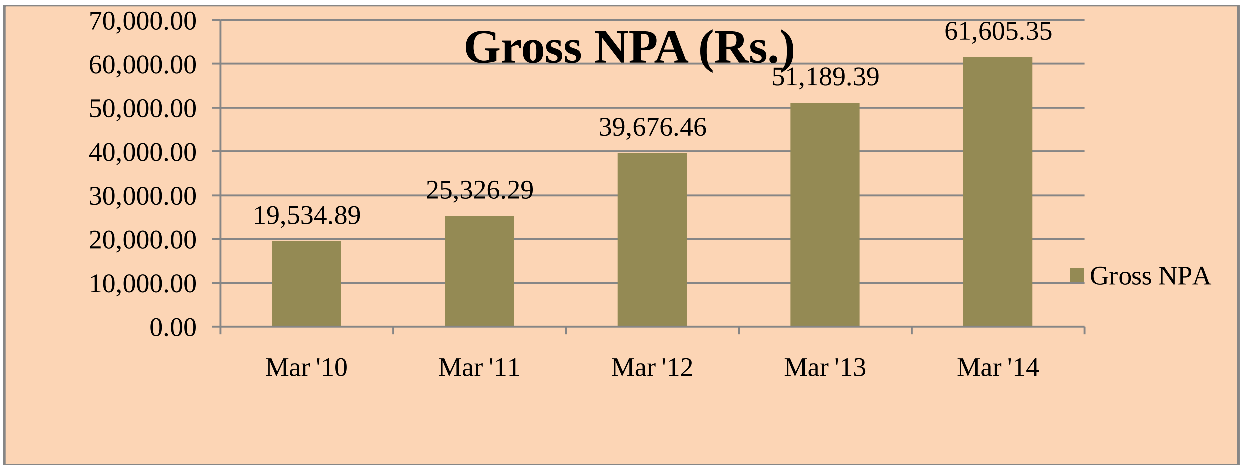


Table 2. Analysis of Net N.P.A. (Rs.)

Particulars	2010	2011	2012	2013	2014
Net NPA	10,870.17	12,346.89	15,818.85	21,956.48	31,096.07
TOTAL	10,870.17	12,346.89	15,818.85	21,956.48	31,096.07

(Source http://www.moneycontrol.com/stocks/company_info/print_main.php)

Above table shows that Net N.P.A. from the year 2010 to 2014. It is clear from the above table that net NPAs of the bank has also been increasing from 2010 to 2014. It was 10870.17 crores in the year 2010 while it increased to 31,096.07 in the year 2014.

Figure No. 2. Classification of Data of Net N.P.A. (Rs.)

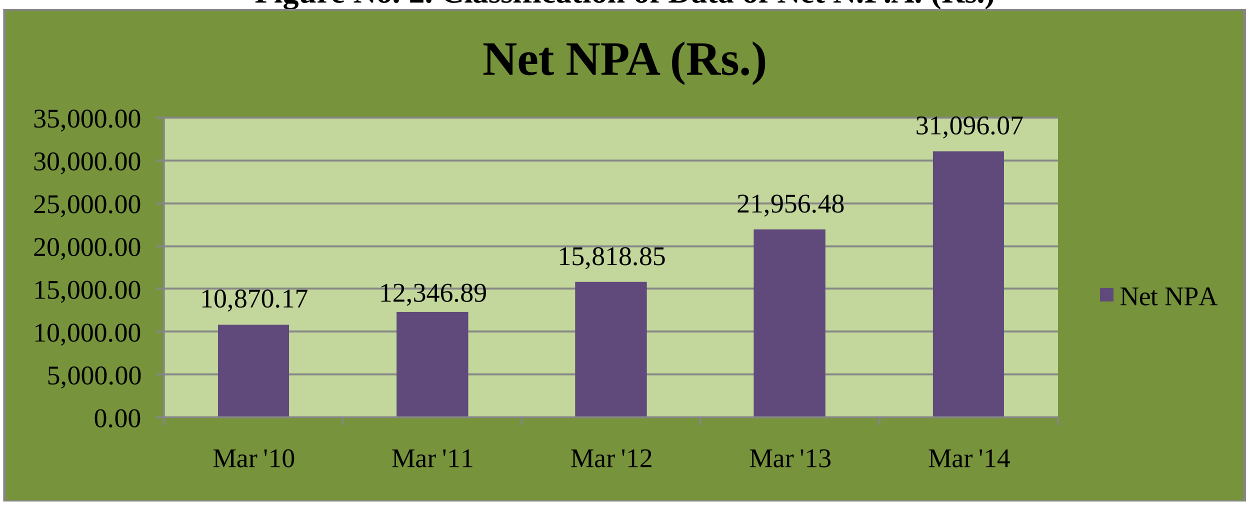


Table 3. Analysis of Gross N.P.A. (%)

Particulars	2010	2011	2012	2013	2014
% of Gross NPA	3.05	3.28	4.44	4.75	4.95
TOTAL	3.05	3.28	4.44	4.75	4.95

(Source http://www.moneycontrol.com/stocks/company_info/print_main.php)

Above table shows that Gross N.P.A. from the year 2010 to 2014. It is clear from the data above that gross NPA,s has been increasing in terms of % like it was 3.05% in 2010 while it increased to 4.95% in 2014.

Figure No.3 Classification of Data of Gross N.P.A. (%)

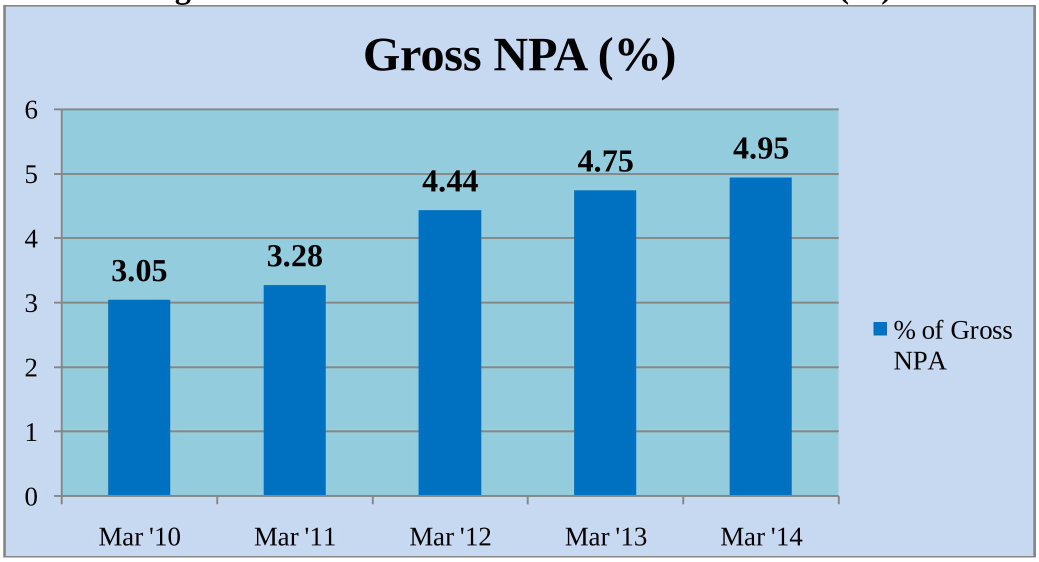


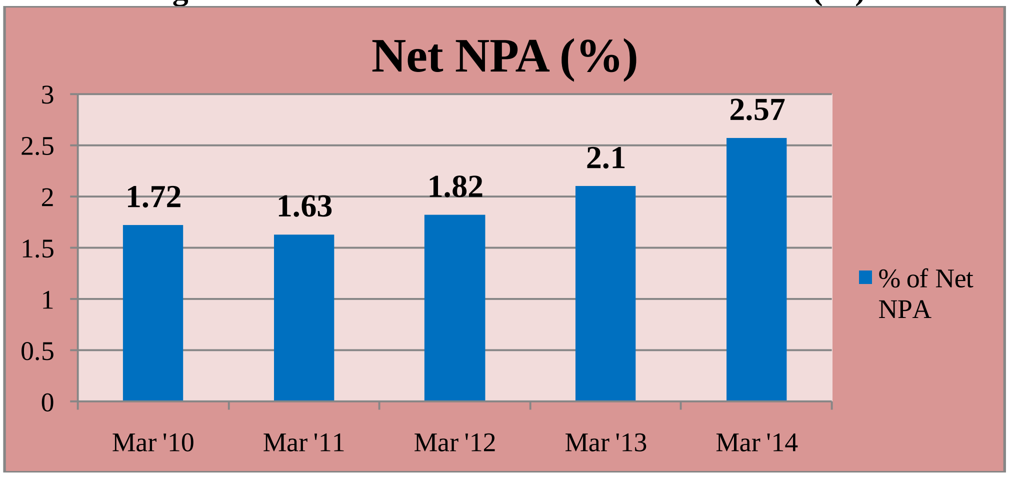
Table 4.Analysis of Net N.P.A. (%)

Particulars	2010	2011	2012	2013	2014
% of Net NPA	1.72	1.63	1.82	2.1	2.57
TOTAL	1.72	1.63	1.82	2.1	2.57

(Source http://www.moneycontrol.com/stocks/company_info/print_main.php)

Above table shows that Net N.P.A. from the year 2010 to 2014. It is clear from the above table that Net NPA,s has also been increasing continuously from 2010 to 2014. It was 1.72% and has increased to 2.57% in 2014.

Figure No. 4.Classification of Data of Net N.P.A. (%)



10. Findings

1. NPA,s has been increasing whether gross or net in terms of rupees.
2. NPA,s has been increasing whether gross or net in terms of percentage too.
3. Lack of securitization while granting of loan is seen in the bank.

11. Conclusion

Non Performing Assets of SBI is studied in detail for the given time period of 2010 to 2014 with its factors, types of assets , NPA,s in terms of rupees as well as in percentage terms. Along with this findings have also been presented. The above paper indicates that NPA,s for the SBI bank has been rising since 2010 which is a serious note for the bank and bank should take some strick action to avoid it, Proper system of recovery should be done is expected, Loan portfolio should be revived by the bank.

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